Forbes.com

Commentary

Fixing The U.S. Broadband Problem

Lawrence J. Spiwak, 08.04.09, 6:00 PM ET

With the American Reinvestment and Recovery Act, the United States has made a massive commitment to providing all Americans with ubiquitous and affordable broadband. Not only must the Federal Communications Commission issue a "National Broadband Plan" by next February, but the recovery act has committed over $7.2 billion in stimulus funds to help further the process.

However, while promoting broadband to all Americans is a critical goal, we also all need to understand that even if we are 100% successful, we are unlikely to boost our rank--currently 15th--of per capita broadband penetration among Organisation for Economic Cooperation and Development (OECD) countries. While this result may surprise and disappoint some in Washington, our failure to increase our rank will not be because our efforts were flawed. Rather, our failure to increase our broadband rank will be squarely a consequence of the inherent flaws in the OECD metrics.

As a matter of simple mathematics, the U.S. cannot appreciably increase its international broadband rank as measured by the OECD even if it achieves 100% ubiquitous broadband. Accordingly, if we are going to make the right policy decisions to achieve ubiquitous broadband, then it would help immeasurably if we had new and better metrics that focus on the value broadband delivers to gauge our progress accurately along the way.

To this end, new Phoenix Center research released last month suggests that policymakers reject the per-capita ranking methodology and adopt an alternative approach called the Broadband Adoption Index, or "BAI," that evaluates the performance of policies based on the value given by society about the use of broadband services. Our approach differs significantly from the pedantic "counting the connections" approach used by the OECD and other organizations (which is simply to add fixed broadband connections by both businesses and households and then divide by total population), because the BAI focuses on the value that consumers and society get from adopting various broadband technologies (cable, fiber, DSL, wireless, etc.).

Focusing on social value is an important policy insight, because the fact is that different broadband technologies or speeds can have appreciably different effects upon different sets of consumers. For example, a 256 kbps DSL connection in a previously unserved, rural area can be enormous, while it might mean very little in an urban area where 3G mobile phones proliferate. Simply "counting" fixed-line connections (as the OECD does) will not allow one to measure these quite significant welfare benefits. The BAI does that.

Looking at the social value of various Internet access technologies also allows a more accurate accounting of demographic and economic conditions. For example, a household subscription rate of 50% in an emerging nation with a very limited telecommunications infrastructure might be considered relatively successful, whereas a similar subscription rate in a more developed country such as the United States would not be considered acceptable. This is why efforts to

compare countries such as Turkey or Mexico to Sweden or Luxembourg, without any account of the economic and demographic differences between them, fails to tell us much about the success or failure of broadband policy or of the adequacy of Internet infrastructure.

Calculating the BAI and appropriate target rates of penetration--by technology, industry and demographic group--for a country like the United States is, no doubt, data intensive. It would require information on what is being purchased, at what prices and what it costs to provide. Most researchers would agree that these statistics are the minimal requirements for understanding the market, so the BAI is no more data intensive than any other meaningful measure of policy performance.

But the effort required is worth it. Approaching broadband from the BAI perspective will focus attention at the right question: Whether or not policies maximize social value. This analysis requires a true sense of the costs and benefits that society as a whole gets from broadband by any means or connection possible.

In the end, broadband is a service--not a miracle. End users demand it, firms supply it and it costs money to deliver the service to all Americans. To encourage its deployment and adoption in a cost effective and efficient manner, we need better tools to understand and measure all of these factors. Policymakers should focus on maximizing the value of broadband to the U.S. economy, not maximizing our position in rank of a meaningless statistic.

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